Unveiling Export Hurdles for Food Products via Small and Medium Enterprises in Malang Raya, East Java Province, Indonesia

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Abstract

The export hurdles that Small and Medium Enterprises (SMEs) in the Malang Raya region challenge are examined in this article, with a focus on the difficulties that arise when choosing whether to enter domestic or foreign markets. For SMEs in Malang Raya, licensing, government support, and marketing management barriers present serious challenges on a national and international level. Innovation, client loyalty, and efficient market management are hampered by a lack of knowledge and skills in critical domains like branding, digital marketing, distribution channels, and market analysis. For SMEs, market uncertainty and risk are exacerbated by incomplete information and an incapacity to evaluate both local and international markets. The process of internationalization is made more difficult by elements including spotting business possibilities abroad, interacting with overseas clients in a different language, and adjusting to culturally and environmental variations. Managing exports becomes more challenging in SMEs, which are usually owner-managed and lack trained managers and employees. Additional problems come from sourcing-related issues, such as the documentation of items for export, logistics, and distribution in the target nation. For SMEs aiming to export, financial limitations, the necessity for working capital, compliance with packaging standards, and handling uniformity requirements in the destination country generate substantial financial hurdles. The formation of new products for international markets is further disadvantaged by a lack of experience in market and product research. Despite these obstacles, the article points out that there may be ways to lower export restrictions through specific trade agreements, particularly those among ASEAN nations. These obstacles can be overcome more skillfully by well-established Indonesian SMEs with extensive permissions, export documentation, marketing plans, uniform packaging, and digital platform usage expertise. The article contributes towards emphasizes the complex nature of the export hurdles that SMEs in the Malang Raya region must overcome, emphasizing the necessity for all-encompassing solutions and supportive systems to enable their successful participation in global trade.

Keywords: Small and Medium Enterprises, SMEs, Food Products, Export, Obstacles
Introduction

Over the years, internationalization has been the approach used by big businesses to expand into other nations and exploit the potential markets there. The most common ways to do this include joint ventures, exports, and strategic alliances (Paul & Rosado-Serrano, 2019). According to Tsukanova and Zhang (2019), internationalization is the process of increasing engagement in the process of internationalization operations. Export or international trade is the result of cross-border business activities that significantly affect both large corporations and Small and Medium-Sized Enterprises (SMEs) and is conducted by citizens of a country or individuals of trade between individuals or individuals and governments of other countries (Fari et. al., 2020). The nation’s economic growth is positively correlated with export activity (Roy et. al., 2016). Both on the supply and demand sides, a variety of factors affect the expansion and prosperity of SME exports. Tambunan (2021) stated about export barrier element that influences SMEs’ export performance. Reduced tariffs and non-tariff trade barriers, as well as lower transportation and communication costs, are characteristics of trade globalization. These factors present both opportunities and challenges for businesses globally, opening doors to new markets through exporting as a process known as "internationalization of the business” (Revindo, 2017a). According to Tsukanova and Zhang (2019) from the case study in China in 1990 marked the start of the trade liberation period and the start of trade negotiations with General Agreement on Tariffs and Trade (GATT) partners. As a result, trade barriers were significantly lowered, and the previously challenging internationalization became a reasonable activity for the company.

The term SMEs might vary depending on the nation and industry, but in general, it refers to companies that, when considering their yearly turnover, number of employees, or other pertinent characteristics, fit within a particular size range. A company’s yearly income, total assets and personnel count are just a few examples of the criteria that determine whether it qualifies as a SME. In many economies, SMEs are vital because they foster innovation, job creation, and economic expansion. In many different industries, they are frequently regarded as the foundation of the corporate environment. One of the external variables affecting SMEs is the usage of Free Trade Agreements (FTA) in international trade by certain countries. One of the drawbacks is the opening of the domestic market to goods from partner nations with FTA. In this scenario, SMEs from other countries that are more competitive have better quality, competitive prices, and will enter the domestic market and compete with local SMEs. As a result, local SMEs that are less competitive will not do well in the domestic market because customers will have other options, such as better products at more affordable prices (Irjayanti & Azis, 2012; Tobing et. al., 2018; Sembiring et. al., 2020). Internationalization of businesses often occurs in rich nations and is rarely advised for SMEs (Revindo, 2017a). SMEs in underdeveloped nations suffer numerous export hurdles (Safari & Saleh, 2020). For instance, Swiss SMEs find it difficult to compete and conduct worldwide trade, resulting in a 57% export value, and to challenge the dominance of large, globally operating enterprises (Tsukanova & Zhang, 2019). Particularly in developing nations, SMEs’ internationalization encounters more difficult challenges and unique characteristics that restrict their ability to conduct business internationally. These characteristics include, but are not limited to, their relatively small company size, scarce resources, and capital constraints (Revindo, 2017a).

Exporting to other nations that sign FTA opens prospects for SMEs with high competitiveness to grow their market and make their products more globally recognized (Tobing et. al., 2018).
Exporting is a mode-of-entry that is frequently used by SMEs to enter overseas markets, according to the Organization for Economic and Development (OECD). This is because it involves less restrictions, substantial capital inputs, and financial and commercial risks (Castagna et. al., 2020). One strategy for overcoming domestic rivalry is to take advantage of opportunities through exports.

Prior Research About Export Barriers Faced by Indonesian SMEs In the Food Products Sector

The common theme across these studies is the apparent oversight of export barriers specifically encountered by food SMEs in the Malang Raya region. A closer examination of each study provides valuable insights into the challenges faced by SMEs in their efforts to internationalize. This section discusses prior research pertaining to examining the export barriers faced by SMEs, particularly focusing on Indonesian SMEs in the Malang Raya area.

In Tambunan’s 2021 study entitled MSE Indonesia Export and Partnership Role, the focus is on the crucial role of export SMEs collaborating with large entrepreneurs to foster the growth of Indonesian SME exports. However, the study narrowly focuses on this partnership role and does not investigate the specific export barriers faced by food factories in the Greater Malang area. Similarly, Sofik Handoyo's research (Handoyo et. al., 2021a) on the Internationalization of Critical SME in Indonesia identifies success factors for SMEs accessing international markets. The study was based on 153 samples from SME exporters participating in international trade fairs, identifies three international barriers are lack of international market knowledge, limited product innovation knowledge, and inadequate institutional networking. Nevertheless, this study neglects to discuss export barriers faced by food factories in the Greater Malang area.

In another scenario, Muhammad Adi Adrian's research (Adi Adrian, 2018) conducted a study entitled Strategy to SMEs to Improve Indonesia’s Export Performance explores strategies with a focus on applying information technology to enhance the overall export performance of SMEs in Indonesia. Despite its emphasis on strategies for improvement, the study does not address the specific challenges faced by food SMEs or investigate into the export barriers within the Malang Raya region. Similarly Revindo (Revindo et. al., 2020) in his study of Does Export Activity Improve the Performance of Small Firms? Evidence from Indonesia investigates the relationship between factory involvement in export activities and various performance indicators. The study was based on 271 respondents from factories exporting in seven regions in Indonesia, covers multiple SME sectors but lacks discussion on the export barriers faced by food SMEs in the Malang Raya area. Likewise, Iryana Virtual Research (Irjayanti & Azis, 2012) in a study titled Factors of Obstacles and Potential Solutions for Indonesian SMEs explores obstacles faced by Indonesian SMEs, highlighting ten main challenges. However, this study also does not specifically address the export barriers of food SMEs in the Malang Raya area.

The collective findings from these studies underscore a significant gap in the research landscape. The absence of discussions on export barriers faced by food SMEs in the Malang Raya region implies a lack of focused attention on this specific segment. This gap in knowledge presents an opportunity for future research to explore and contribute valuable insights into the unique challenges and obstacles encountered by food SMEs in their export ventures within the Malang Raya area. Addressing this gap can enhance the understanding of export
dynamics, inform policy decisions, and support the growth of the SME sector in the Malang Raya Region.

Moving on to the discussion of four additional studies, the focus shifts to the export barriers faced by SMEs, especially those engaged in the production of food products in the Malang Raya Region. Each study provides distinctive insights into various aspects of SMEs’ intentions, challenges, and strategies related to the export of food products.

Roos (Roos Kities Youdari, 2019) administered a study about Intent to Export Small Firms in the Processed Food Industry assess into the intentions of SMEs to export food products. The study involves interviews with three SME actors and reveals that while some SMEs have the potential and intention to export, they encounter barriers such as a lack of international market information, product quality standards, and packaging standards. However, the study does not specifically address the export barriers of food SMEs in the Malang Raya area. Relatedly, a study conducted by Fatoni (Fatoni, 2013) about Fruit Industry Development Strategy in East Java focuses on fundamental problems in SMEs related to processed fruit products in East Java. Various barriers are identified including seasonal and post-harvest raw materials, low competitiveness in quality assurance, supply system challenges, and more. While the study discusses potential barriers to the fruit industry in East Java, it does not concentrate specifically on export barriers, leaving room for further investigation in the context of the Malang Region.

Another equal research conducted by Taneo (Taneo, et. al., 2020) entitled Creative Destruction and Knowledge Creation as Mediation Between the Speed of Innovation and the Competitiveness of Food and Medium Enterprises in Malang, Indonesia explores the role of innovation in enhancing the competitiveness of food SMEs in Malang Raya. While the study emphasizes the importance of innovation, it does not specifically address export barriers faced by these enterprises. This research highlights a gap in understanding the obstacles to exporting food products in the Malang Raya Region. While Sembiring (Sembiring et. al., 2020) carried out comparable research with the title of Cooperatives, Micro Companies and Trade Services Bandar Batu in Empowering Small and Medium Company Export Destination Products focuses on the role of cooperatives and trade services in empowering SMEs for export. The study reveals that through training and guidance some SMEs managed to meet export standards. However, it does not specifically assess into the export barriers faced by SMEs, pointing to the need for further investigation in the Malang Region.

Collectively, these studies underscore the absence of a concentrated focus on export barriers for food SMEs in the Malang Raya area.

**Understanding Obstacles Faced by SMEs In the Internationalization Pathway**
The literature on export barriers continues to grow, but there are still significant differences, and they vary at various levels of internationalization especially in businesses that are still in the domestic marketing stage (Uner et. al., 2013). SMEs in developing countries face export barriers or more complex and more complex constraint factors (Diyanto, 2019). Complexes or various obstacles have been categorized in different ways by some researchers (Al-Hyari et. al., 2012). Leonidou’s classification of export barriers is interesting because it is more systematic (Al-Hyari et. al., 2012). Leonidou reduced the export barrier of SMEs to 39 export
barrier factors taken from the review of 32 empirical studies, which were classified into 2 main obstacles, namely internal and external (Leonidou, 2004). But at the moment some progress has been made by SMEs as they begin to enter the international market, manager-owner skills by engaging foreign buyers, product quality is improving, and productivity is increasing (Mokheti, 2019).

Understanding export barriers can be used as motivation and encourage SMEs who are still not exporting to start exporting and enact public policies to encourage SMEs to do international business (Uner et. al., 2013). Exports are the most common way to enter foreign markets for companies, but the tendency of SMEs in developing countries is not to export (Al-Hyari et. al., 2012), or avoid exporting (Uner et. al., 2013). The export value of a country will benefit that increase the country's foreign exchange and expand the creation of job opportunities (Uner et. al., 2013; Al-Hayari et. al., 2012) cited from Tesfom and Lutz (2000) and produced the prosperity of society (Uner et. al., 2013) quoted from Pinho and Martin (2010), boosting the country's economy (Roy et. al., 2016; Fitriana, 2021) quoted in Situmorang (2018), can overcome the deficit of trade balance and foreign payments. The tendency of SMEs in developing countries not to export (Al-Hyari et. al., 2012), or avoid exporting (Uner et. al., 2013). Barriers to international trade are one of the reasons for the poor performance of SMEs in international business (Al-Hyari et. al., 2012). International trade is a new and growing trend in SME, and is an expansion of business operations in new geographical locations (Narayanan, 2015). For many small and medium-sized entrepreneurs, international routes face many export barriers or obstacles (Leonidou, 2004). Internationalization helps to overcome the difficulties of competition in the domestic market, helps to create new jobs, increase foreign exchange resources, increase income or long-term profits for SMEs, quoted from Leonidou 2007 (Narayanan, 2015).

Indonesia has many FTA with many countries, thus providing opportunities for many imported goods similar to domestic products and more competitive prices, better quality to enter Indonesia, and this will be a threat to Indonesian SMEs (Revindo, 2017). Therefore, Indonesian SMEs are less able to take advantage of free trade as export opportunities, and the export performance of Indonesian SMEs is very small compared to other ASEAN countries despite the Indonesian government providing guidance and assistance to export SMEs (M. D. Revindo, 2017). The number of SMEs in Indonesia is huge that is 65.4 million SMEs, and generally their products are sold in the domestic market as a source of income (Elvia Ivada & Hamdi, 2014; Tambunan, 2021). However, many SME products have the potential to be exported, including processed food products, but many factors hinder exports (Tambunan & Nofrian, 2018), then the export value of SMEs is relatively small (Tambunan, 2021). There are not many simple companies that can still carry out direct export (Elvia Ivada & Hamidi, 2014a). Product exports are one way to increase profits for SMEs and future growth, play an important role in growth and will face international competition (Roy et. al., 2016). SMEs with international experience regard the country's delivery as a promising growth strategy (Nummela, 2011). There are several strategies for entering the international market, including franchises, leases, contracts, manufacturing, international cooperation, international strategic agreements, and foreign investment (Glowik, 2020). SME food processing businesses have export potential and the Indonesian government also encourages SMEs to innovate and develop their products so they can export (Diyanto, 2019). The export value of Indonesian SMEs is still low, which is around 14% of the country's export value in 2020.
SME export data tends to increase from 2015 to 2019, but compared to the total value of Indonesian exports, the value of SME exports is very small as it is below the 15% level. But this export figure is lower than some ASEAN countries (Tambunan, 2021) as in Table 1.

Table 1

<table>
<thead>
<tr>
<th>Years</th>
<th>SME Export (IDR trillion)</th>
<th>Total Indonesian Export Value (IDR trillion)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>186</td>
<td>2,180</td>
<td>8.53</td>
</tr>
<tr>
<td>2016</td>
<td>255</td>
<td>2,104</td>
<td>12.12</td>
</tr>
<tr>
<td>2017</td>
<td>302</td>
<td>2,448</td>
<td>12.34</td>
</tr>
<tr>
<td>2018</td>
<td>294</td>
<td>2,610</td>
<td>11.26</td>
</tr>
<tr>
<td>2019</td>
<td>339</td>
<td>2,431</td>
<td>13.94</td>
</tr>
</tbody>
</table>

There are many research results of the internationalization process model, but the results have not yet reached a consensus on the success factor of SME internationalization, exporting SME research at the Asian level still shows significant gaps, therefore SME internationalization research is still relevant (Handoyo et. al., 2021a). There is little research on the Internationalization of Indonesian SMEs (Revindo et. al., 2020). Revindo’s research, said the average time for Indonesian SMEs to become exporters took 6.2 years, for food and drink SMEs for 10 years. There are 22 factors driving the export of Indonesian SMEs, or translated as factors hindering exports, and only 3 determining factors most include (1) foreign buyers visiting SMEs, (2) Product quality and uniqueness, (3) Finding new markets abroad (Revindo & Nguyen, 2017).

Perception or existence of export barriers for Indonesian SMEs, causing a negative attitude or causing reluctance to export non-exporting SMEs (Revindo, 2017a). Therefore, minimizing or eliminating and identifying export barriers effectively, accurately, is essential and indispensable to promote the internationalization (Leonidou, 2004a) of SMEs, especially Indonesian SMEs. Consequently, there needs to be a good understanding of the export barriers of SME products for SME owners so that one by one expectations are made so that SMEs can export, this example is given by SMEs in the city of Surabaya with the result of chili sauce / chili sauce with the brand name of “DEDE SATOE” can be exported (Susilaningsih et. al., 2016). This means that export barriers can be overcome one by one, as the export process must face many obstacles (Igwe et. al., 2022).

Discussion

Indonesian SMEs have great opportunities to export as they are supported by the ease of FTA between Republic of Indonesia and countries such as ASEAN, Indonesia, Malaysia, Singapore, Thailand, Philippines, Laos, Cambodia, Myanmar, Japan, Australia, China, Korea, Pakistan, India, and Hong Kong.

Direct exports by Indonesian SMEs are very profitable because they have more control in exports, and profits are greater than direct exports. This method is usually done by Indonesian SMEs who already understand and experienced in doing so and already have complete permit
and standardization as well as completeness of domestic export and customs documents, marketing/promotion, and export standard packaging. There are three ways in which Indonesian factories can export. They are by using an intermediary dealer for the destination country, by using retail in the country of export destination, and by using a digital platform. In this context, by using the services of an importer or distributor intermediate in the export destination country, it is a support because the distributor knows the sensitivities of the consumer, has a sales network system through distribution, and solutions in the destination country, so that Indonesian SMEs do not have to do so, and the distributor maintains the import license and import costs. There are several types of intermediary services that includes large conventional distributors, small, specialized distributors, large industries, small, specialized industries, and brokers or agents.

Basically, retail businesses are at the forefront, because they have distribution channels and sell their products directly to consumers. But in the case of export to ASEAN countries, SMEs can export directly with the service "undernamed import". Indonesian factories can export directly to end users in ASEAN countries with the convenience of FTA as they are not too far away to be achieved with inter-country logistics services. Moreover, with the help of the Digital Platform, Indonesian SMEs conventional market connection factors can be eliminated and which this can reduce export costs, as the connection is replaced with the Digital Platform. Some types of Digital Platforms includes Creating an SME website, Digital social media platform such as Youtube and FaceBook, Digital Market Place, including Alibaba Platform, Shopee, Tokopedia, or Digital Market Place in the export destination country, Digital Portal Business Platform such as ITC-marked analysis, Trade boss, Inaekport, and SMESCO.

The Indonesian SME export model is indirect as SMEs face several export barriers, including permits, a rather complicated export documentation process and so on. Export is the activity of selling products abroad, and is an activity in international business, which makes it possible to develop its products abroad (Diyanto, 2019). Export or international trade is carried out by citizens living in a country or individuals of trade between individuals or individuals and governments of other countries (Fari et. al., 2020), business activities that cross national borders, and have a major impact on large companies and SMEs (Al-Hyari et. al., 2012). Export activity has a positive relationship with the country’s economic growth (Roy et. al., 2016). Many factors influence the growth and success of SME exports on the demand and supply side. Tambunan (2021) referred export barrier factor which affects the performance of SMEs for exports.

International trade or internationalization is a competitive driver at the micro and macro levels, so policymakers in developing countries will provide incentives and support services so that companies will grow and succeed in foreign markets (Antoldi, 2011). Successful export growth resulted in a good improvement in economic development, as in China (Fari et. al., 2020). From the point of view of the country's economy, the benefits derived from internationalization include creating new, broader job opportunities, increasing the country's foreign exchange, improving technological progress, improving the standard of living and the economy of its people (Narayanan, 2015) quoted from Leonidou et al, (2007); Artega-Ortiz et al, (2010). From an SME point of view, international or export business has the advantages of increased profitability, short and long-term viability, future growth (Al-Hyari et. al., 2012), increase employment, increase productivity, generate prosperity (Uner et. al., 2013) quoted
from Pinho and Martin (2010), improving the survival of SMEs helps to overcome the difficulties of competition in the domestic market, with the same players either at the same level or higher (Narayanan, 2015) quoted from Leed (2006), profit generation for reinvestment and growth, extending the product life cycle, building a stronger competitive position, diversify the SME business, minimize risks by adding foreign markets, absorbing excess production, increasing innovation, and foreign market targets can reduce the problem of unfavorable domestic economic conditions and high political instability (Al-Hyari et. al., 2012). In general, international trade is the field of large companies, while micro, small and medium enterprises are generally the domestic sphere of each country (Mokhethi, 2019). SMEs believe there are many export barriers, to expand overseas markets that have great sales value potential, due to lack of resources and capabilities (Mokhethi, 2019).

Roughly Indonesian SMEs have the potential to export their products (Tambunan, 2021; Adi Adrian, 2018) and want to be an exporter, but face many obstacles or difficulties or obstacles (Al-Hyari et. al., 2012; Diyanto, 2019; Adi Adrian, 2018; Al-Hyari et. al., 2012). Exports are the most common way to enter foreign markets for companies, but the tendency of SMEs in developing countries is not to export (Al-Hyari et. al., 2012). SMEs generally lack experience in exporting, due to internal barriers in the form of limited resources and capabilities (Antoldi, 2011). Extensive research on export barriers in developing and small countries is lacking Al-Hyari et. al (2012) quoted from Tesfom and Lutz 2006; Altintas et. al., 2007. Barriers to exports in developing countries are more complex (Diyanto, 2019). The existence of many export barrier factors caused the performance of SMEs to be. Export barriers will trigger the failure of foreign trade, and financial losses will eventually lead to a negative attitude to potential exporters and those who export, so that exporters do not perform optimally (Al-Hyari et. al., 2012). From this obstacle, an opinion arises that the foreign market is more difficult than the domestic market, and the minimum (Indian Enterprise &Government, 2018). Minimizing export barriers will contribute to a higher trend of export performance (Al-Hyari et. al., 2012). Many barrier factors influence export performance, for example Gemunden (1991) quoted from Al-Hyari 2012 in his study of 50 empirical studies related to exports admit there are 700 factors of export barriers (Al-Hyari et. al., 2012). The process of internationalization of food products for SMEs does not go smoothly due to internal and external constraints, internal constraints on human resource quality, the use of low technology in traditional management, standard export product specifications and packaging standards.

**Conclusion**

The explanation of the export barrier for SMEs in Malang Raya would be; if SMEs plans to export, then SMEs will decide to grow with the expansion of the market domestically or internationally. Barriers to domestic licensing and export are also an obstacle to exports due to the SMEs status permit becoming valid and entitled to state assistance and support. Obstacles and quality of domestic and global marketing management, the average SMEs in Malang Raya does not really understand concerning marketing management such as targeting or exporting domestic and global markets, expanding the absorption of domestic and global markets, knowledge and capabilities, analyze market information for basic marketing management, distribution channels for marketing products to customers, branding and satisfaction/priority as the basis for market control, customer loyalty (market orientation), domestic market development innovation and global opportunities (export market sense), and digital marketing (internet, social media, and market) and improving product quality.
Another consideration about obstacle for SMEs in Malang Raya is about barriers to limited information to analyze domestic and global markets, as to identify, select and contact domestic and international markets, to reduce market uncertainty and too much risk. In this context, it relates to identifying foreign business opportunities and the inability to contact foreign customers because of remote, language and cultural differences in addition to addressing environmental and sociocultural barriers. Obstacles to the use of information technology and the use of digital systems for SMEs are also considered as obstacles and opportunities associated with low communication costs and at the same time can create networks abroad. The obstacle associated with SMEs in Malang Raya is that they do not have managers and trained staff because generally SMEs are owned, and everything is self-managed so that they do not have the management time to handle exports and/or inadequate/untrained personnel to export. The problem of sourcing is related to exports because it requires special expertise to handle the task of documenting goods for export, logistics and distribution in the destination country.

The lack of working capital to finance the export, export of process products, packaging standards, and various types of uniformity in the destination country as well as visits to the distributor of the destination country or the cost of delivery require significant expenses. Experiencing financial problems and obstacles and at the same time addressing other export barriers. Obstacles to developing new products for foreign markets are difficult for SMEs in Malang Raya, as they do not have market research and product research expertise.

Direct export barriers by SMEs in Malang Raya can be reduced, as there are trade agreements on goods, especially in ASEAN countries, which are generally carried out by Indonesian SMEs who are already understanding and experienced in doing so and already have: complete permit and uniformity and completeness of export documents and domestic customs, marketing/promotion, standard export packaging, so that SMEs can export to the destination country using middleman for the destination country, the contract in the country of export destination, and a digital platform.

Acknowledgement
The authors would like to thank Universitas Muhammadiyah Malang, Indonesia, for providing funding and support for this study.

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